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LOCAL COMMENT

State tax credit way too generous to moviemakers

BY STATE SEN. NANCY CASSIS • June 16, 2008

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Michigan's unyielding one-state recession continues to challenge the best efforts of lawmakers and the administration searching for solutions. In our rush for answers, however, we must not make unwise fiscal decisions on the false promise of an economic boon.

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Unfortunately, that is exactly what happened this spring when Gov. Jennifer Granholm signed into law the most generous film tax credit in the nation. Perhaps the governor was starstruck, because she certainly was not thinking clearly when she sold this "incentive package" as a "jobs growth" opportunity. Just ask the millions of owners and employees of small and medium-sized businesses in Michigan, who will end up paying the tab.

The film tax break is a credit for movie makers of up to 42% of their production costs incurred in the state.

According to the nonpartisan Senate Fiscal Agency, the credit will bring \$17 million into Michigan through income and sales taxes in fiscal year 2009. Yet due to the payouts to film companies, the credit will reduce the Michigan Business Tax revenue that year by \$127 million -- for a net loss of \$110 million.

One reason for this loss is that the film credit is a "refundable" one, which means that if a company's credits are more than its tax liability, the state will send the company a refund check. Such credit "cotton candy" may be sweet, but it provides no real nourishment to our economy.

The film credit does not pay for itself. We have to rob Peter, the hardworking Michigander, to pay Paul, the Hollywood tycoon. To fund these millions of dollars in payouts, we must use money from the state's general fund budget -- and in turn reduce some other budgets. Which budgets are we going to cut by \$110 million?

Through the MBT and its surcharge, we have already raised the taxes on the job creators in the state, our small and medium-sized businesses. Thanks to several committee hearings, we are just now beginning to formulate solutions to this unwanted result of the business tax. We certainly cannot burden these businessmen and women with more taxes.

Regrettably the film credit does just that. State Senate Appropriations Committee Chairman Sen. Ron Jelinek, R-Three Oaks, and House Appropriations Committee Chairman state Rep. George Cushingberry Jr., D-Detroit, have expressed concern recently over the unanticipated costs of the credit, and they have indicated a willingness to make some prudent changes. Cushingberry said the credit should be capped at \$50 million annually.

There has also been some recognition by the Senate of the need to remove refundability through the passage of an amendment I offered to Senate Bill 1196. The amendment would eliminate the state from issuing a refund if the tax credit for a service station

converting or installing pumps for E85 ethanol is greater than their tax liability.

This is certainly a good start. I wish I hadn't been the only Michigan legislator to vote against the movie tax credit legislation. Sen. Jelinek and Rep. Cushingberry have now sounded warning bells that I had struck weeks ago.

I hope more people are listening.

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